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ANNUAL REPORT YEAR ONE

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EXECUTIVE SUMMARY

At the start of the Program, KCBS stated we would show results in the first year that give Kosovars a reason to believe that their lives and livelihoods are improving. We would show tangible progress toward increased jobs, sales, and investment. And we would deliver accelerated private sector growth through stronger value chains, more effective associations, vibrant consulting services, and a better business environment.

In the main, we believe the project has been successful in achieving these qualitative results. The KCBS Program is known throughout Kosovo and is well regarded by Kosovars and other donors alike. Stakeholders understand the goals of the program, and are participating in the activities of KCBS; this program cannot be implemented solely by the efforts of KCBS alone. A success of the first year has been the degree to which stakeholders have bought in to the goals of the program and have been keen to ensure their objectives and those of KCBS are dovetailed with one another.

The driver of KCBS is increased jobs, sales and deals and everything we do will ultimately contribute directly to those results. If a proposed use of resources had a high probability of delivering sales and jobs, we will do it; if not, we will not. However, the subsequent quantitative measure of our engagement has proved we were too optimistic considering the current state of the Kosovo business environment.

We had proposed to spend money on a given activity only if there was a reasonable expectation that for every dollar we spent, at least five dollars of sales would result from KCBS clients. In cases where we could not satisfy this criterion, we would not spend contract funds. As it has turned out, in the FY2005 through end September, we spent \$4.402 million; the sales from our clients in that period were approx. \$40.2 million, representing a growth over the same period in 2004 of \$8.3 million. This gives a direct sales to expenditure ratio of 1.9:1. However we expect the improvement in this ratio to escalate: many of the benefits in increased sales lag behind our intervention; our sales numbers only come from the baseline companies with which we started Year One – companies added during the year will only be monitored from the start of Year Two; and we have yet to develop the methodology to capture the multiplier effect, which would improve the ratio further.

It is also noted that much of our expenditure, approx. 40%, has been spent on resources used to improve the business operating environment. Although this in the long term will have beneficial effects on the Kosovo economy and lead to greater sales, the first year has merely laid the groundwork for these benefits and can not be said to have had an impact this first year.

KCBS has created 295 additional jobs at our client companies during Year One, above the target of 200. This estimate is necessarily subject to changes in the economy that cannot be predicted. For example in year one, KCBS assisted quarry operators to make sizeable investments in additional equipment; but the road construction budget was slashed by more than 65% from 2004, and the predicted job increases did not materialize. It should also be noted that one of the program's sub-objectives is to improve productive capacity; and very often this investment leads to improved productivity and fewer jobs.

In Year One, the resources brought to the project other than the long term staff working in our field office, included many short term technical advisors [STTAs]. They were primarily employed by the livestock cluster and the business services group. A summary of all the topics addressed by STTAs is provided in Annex 3. The challenge in year two will be to ensure the advice to the livestock cluster, which STTAs provided on a relatively narrow front of the Kosovo economy, is more widely dispersed throughout the farming community.

Few grants were awarded through the Strategic Activities Fund. Next year there will be more emphasis on awarding grants to assist in the dissemination of knowledge and good practices

advised by the STTAs, and to provide demonstrative examples of improved technology. Just four World Learning trips were made but, again, more are planned for year two.

KCBS recognizes that there are opportunities on the program where USAID's cross-cutting themes may accelerate or strengthen achievement of the primary goals of the project. In the first year, KCBS has worked to incorporate minority businesses into many of our activities. We have actively recruited minority representatives to participate in the associations we are developing, trade shows we attended, and the Private-Public Dialog task groups; and we provided specific minority training in the grant application process

KCBS has also worked with several women's associations both in and outside our clusters, which have championed specific women-owned business initiatives. KCBS sponsored a new study undertaken by the Center for Protection of Women and Children [CPWC] to examine women's access to business and finance. The results were submitted at the end of the year and will be presented at the Finance Fair workshop sponsored by KCBS in November. KCBS became aware that our training on the farms was always directed at the owners and senior farm hands, whereas women perform much of the work.

In the Year One Work Plan, we listed targeted results for the year. An accounting of which of these were achieved is provided in Annex 4.

The first year has provided an ideal platform from which to continue to build an improved business operating environment in Kosovo and to ensure that the three clusters selected for attention under the program become competitive and leading forces in the economic recovery and growth of Kosovo.

1.0 PROGRAM DESCRIPTION

1.1 INTRODUCTION

This is the first annual report on the implementation of the Kosovo Cluster and Business Support (KCBS) project. The United States Agency for International Development (USAID) awarded KCBS to Chemonics International and its consortium of implementing partners under a Privatization II Task Order on September 30, 2004. This work plan covers the period from October 1, 2004 through September 30, 2005.

1.2 PROGRAM GOALS

The goal of KCBS is to stimulate economic growth and improve employment opportunities for Kosovar citizens. The project will strengthen the competitiveness of private sector enterprises through training, technical assistance, and policy advocacy to mitigate detrimental legal and regulatory constraints to business growth.

1.3 PROGRAM COMPONENTS

KCBS will be implemented over four years and comprises two distinct but complementary components. The first component is directed toward developing and implementing a program to overcome factors known to be inhibiting economic growth and employment. USAID-financed advisors will serve as facilitators in resolving government-placed constraints to business formation and development. Assistance will also be provided to strengthen indigenous business associations, business service consultants, and business training providers so they can become established in the market, and therefore sustainable. The second component is directed toward working with and providing assistance to specific economic groupings, or clusters, and the individual enterprises that make up clusters. Three clusters have been targeted:

1. Dairy, meat, poultry, and animal feed (the livestock cluster)
2. Fruits and vegetables
3. Construction materials

These clusters were chosen because there is a significant domestic demand for their products; USAID has worked successfully with farms and firms in these clusters; and USAID has identified interest and potential leadership in the clusters.

1.4 USAID OBJECTIVES

USAID's Strategic Objective in Kosovo, is SO 1.3 – Accelerated Private Sector Growth. The KCBS program supports achievement of this objective. The KCBS program has strong linkages to other USAID strategic objectives:

- SO 1.2 Improved Policy and Institutional Climate for Productive Investment
- SO 2.1 Civil Society and Government Effectiveness, and
- SO 2.2 More Open and Responsive Government

The major intermediate results for Strategic Objective SO 1.3 are:

- IR 1.3.1 Increased Competitiveness of the Targeted Clusters
- IR 1.3.2 Improved Business Operating Environment

A diagram showing the hierarchy of objectives for the KCBS program is shown in Annex 5.

2.0 LIVESTOCK CLUSTER

The Livestock Cluster Team concentrated on developing four agribusiness sub-clusters. These are dairy, meat, animal feed and eggs. The approach, issues, and results achieved for each sub-cluster are set out below.

2.1 Dairy Cluster

In Year One, KCBS confirmed that demand in Kosovo for Grade A quality milk is very large and growing. Kosovo imports over half of their processed milk needs. At this time any increase in Grade A milk production can be used by the commercial dairy processors to make grade A processed milk products. For example, the Devolli milk processor has the capacity to produce over 100,000 liters of UHT milk a day, but is only procuring about 30-40,000 liters. The market for UHT milk is approximately 150,000 to 200,000 liters a day.



KCBS therefore focused its efforts on increasing milk production among Kosovo farms. KCBS analyzed the nutritional, health, and reproductive status of dairy cows in Kosovo, and found them to be quite lacking. Through a combination of long-term and short-term technical assistance, KCBS began addressing these insufficiencies.

KCBS developed and introduced to commercial dairy farmers a simple and useful barn sheet for individual cow recording of milk production, breeding dates, estrus dates, pregnancy exams, mastitis testing, and notes of treatments.

Two computerized programs were designed to analyze the effects of changing production variables such as reproduction and nutritional levels for higher milk production, as they affect net income from dairy cowherd.

KCBS assisted in establishing a dairy farmers association, KAMP, and dairy processors association, KDPA. Both organizations are actively participating in the activities that KCBS is conducting. KCBS has provided on-farm training to over 50 farmers in milk quality improvement, feed management and veterinary health management.

A group of veterinarians have been sent to the US to receive training in reproduction improvement and a group of dairy farmers have been sent to the US on dairy management training. Due to the intervention of KCBS some of the commercial dairy farmers have seen an increase in milk production of 50% and most have averaged over 20% increase in milk production.

KCBS developed a model business plan and lending program for dairy farmers now accepted by Raiffeisen and ProCredit's bank. The banks are in the process of lending to the dairy farmers based upon the program developed by KCBS and implemented through KAMP.



One of the major constraints to the development of the Kosovo dairy industry is the importation of dairy products below the world market price. This is caused by subsidies in the exporting countries and the fraudulent importation practices of the Kosovo importers. KCBS has filed action with the UNMIK crime and corruption prevention unit to correct the fraudulent importation issue. KCBS is also working with the customs unit and MAFRD on identifying and correcting the unfair subsidies issues.

KCBS worked with three dairy processors (Devolli, Abi, and Rona) to implement a system of paying based on grade and standards. The processors are paying a premium price for Grade A quality milk. The amount of Grade A quality milk they are receiving is increasing on a daily basis because of the intervention of KCBS on quality improvement of milk at the farm level.



At the end of the first year, KCBS conducted trials at two dairy processors for the production of mozzarella and ricotta cheese. Both of these trials were highly successful. An excellent product was developed that was tested with Kosovar consumers.

The cost of production was reasonable in relationship to the cost of production of other locally produced cheeses. The cost should be competitive with the cost of imported cheeses used to make pizza and will make a superior product. The two factories are analyzing the production costs and the market. KCBS is

assisting in helping them develop the market for these new products.

These efforts have led to significantly increased sales and jobs. Preliminary data indicates that dairy processors are processing approximately 34,000 additional liters of milk per day more than the same time period last year. This translates to approximately €9,500 per day of additional income to dairy farmers and €15,390 of additional income into the dairy sector. Dairy processors have reported that they have created 39 new jobs.

2.2 Meat Cluster

During Year One, KCBS identified the lamb and sheep market as potentially the most profitable sector of the meat market. Although other markets could be developed in Kosovo, e.g. beef, goats and other poultry products such as turkey and duck, KCBS will concentrate on reviving the sheep and lamb market in the next year since it is the one which could generate the most dramatic returns.

The Kosovo sheep industry dates back hundreds of years. Sheep became a popular livestock item for Kosovo rural people to raise due to natural climate conditions and topography that support sheep production better than other livestock types. Pastureland and meadows represent a major resource for the development of the sheep sector. Sheep currently are mainly local breeds and they are kept almost entirely in the hill farming areas around the borders of Kosovo. The Kosovo hill pastures are said to be particularly suitable for meat production and turn out high quality carcasses.



Until 1991, the average herd size was in excess of 600,000. Since then there has been a significant decline, with only 93,000 in 2005. The decline in the sheep flock size is a result of the prohibition of Kosovo lamb being exported into the EU. Kosovo has a tradition of producing lambs for export to some of EU countries; lamb meat produced in Kosovo was marketed in EU countries mainly in Italy and Greece. The domestic market will not support a higher price for lamb meat. The average price was €1.50/kg live-weight while, at the same time, in neighboring Macedonia prices reached up to €4.00/kg live-weight.

There is a huge market for Kosovo-produced lamb and sheep, particularly in the EU. EU produces 92 million head of sheep a year. Spain and the UK are the best producers of sheep in the EU. EU imports about 20% of their sheep and lamb needs. Imports of meat average 250 MT per year. EU imports sheep meat mostly from New Zealand due to previous trade agreement with UK. Sheep plays an important role in holidays and festivals. This generates a peak in demand during the Easter holidays. The price for sheep in the EU in 2004 ranged from €3.2 to €4.6, and lamb from €4.2 to €6.0.

KCBS assisted in developing the sheep market in a couple of non-EU markets such as Albania and Bosnia. KCBS has located buyers and determined that Kosovo is cost competitive with the locally produced sheep. However, ultimately Kosovo needs to get into the EU market to reach their full production and marketing level.

The vision for the Kosovo sheep industry is for the size of the sheep population to reach pre-war levels. Kosovo has the resources to increase sheep population. Kosovo has certain advantages for sheep production, including the ecological cleanliness of the sheep pastures, low costs of production, and competitive labor costs.

The biggest challenge for the sheep industry to reach prewar levels is the legal constraints for selling Kosovo lambs into the EU market. KCBS began this process in year one by working with the EU and MAFRD to obtain an export number for Kosovo. To totally open the EU market will require meeting strict EU sanitation, veterinary, and other standards.

The EU has developed a strong policy to contribute through trade to improving economic governance, fostering competitiveness and building supply side capacity in a manner consistent with sustainable development objectives. The development of the sheep and lamb industry in Kosovo would fulfill all of these conditions. Further, the sheep and lamb sector would reduce the risk for Kosovo less favored areas (LFA) from turning into illegal activities by providing them with a viable agricultural opportunity.

A side benefit of lamb and sheep production is the sale of wool. KCBS identified UK-based Dawson H Sons & Co, the world's largest wool importer, which expressed a strong desire to buy Kosovo wool. The Dawson & Co has been present in the western Serbia for the past 2 years and to date they have collected approximately 50 tones of wool. They wish to expand into Kosovo.

2.3 Animal Feed Sub-cluster

During Year One, KCBS confirmed that there is a large domestic demand for animal feed that domestic production is not meeting. For example, the livestock sector requires about 324,000 ton of maize per year, and Kosovo is expected to produce only 280,000 tons in 2005. The situation with soy is even worse. Kosovo produces barely 300 tons for a demand of 18,000 tons. Demand for feed continues to grow, for example, by approximately 18% for dairy cattle alone.



A major constraint facing the Kosovo livestock cluster is the susceptibility to high feed costs and dependence on imported complete feeds and/or raw materials. This situation led to prohibitively high prices for Kosovar livestock (primarily poultry) producers several times during the last 4 years when regional and/or international stocks of raw materials were low. Generally, feed costs represent 50%-80% of the total cost of production. In Kosovo a number of the large poultry producers are major feed millers. While much of the domestically processed feed has been utilized within the poultry industry, a new market is emerging among the dairy producers where improved feed formulations are producing significantly higher milk production.

During the first year, KCBS promoted scaling up the adoption of “best practices” for maize



and soybeans by farmers and identification of best management practices for canola, alfalfa, and possibly other crops of interest (e.g., sorghum and red clover). Improvements in these areas will increase domestic production of quality grain, oilseeds, and forage for the entire livestock industry. KCBS will extend these activities by examining the economic feasibility of domestic production of new crops.

KCBS has worked with many progressive farmers and assisted them in adopting improved maize and wheat varieties and efficient crop

protection products. Efforts must also continue to identify best management practices for other feed crops (alternative legumes and oilseeds) and forages that could be economically grown and utilized by the livestock industry. Wide-scale adoption of proven yield-enhancing crop production activities will provide numerous benefits such as production of marketable surpluses from Kosovar farms and establishment of efficient domestic production of quality meat, dairy, and egg products. Ultimately, this will result in the Kosovar consumer having access to quality products at a more reasonable cost and increased the overall competitiveness of the domestic livestock sector relative to other regional players.

2.4 Poultry Cluster Approach

During Year One, the scope of work for the egg cluster slightly changed to include the entire poultry sector including poultry meat and meat byproducts. This is a natural consolidation of activities. The meat cluster now includes lamb, sheep, beef and other meat products. It was originally thought that there was a synergy between poultry meat processing and marketing and other meat products. However, poultry meat has been shifted to the egg cluster because there is more of a synergy between the production aspects of eggs and poultry meat production than the marketing and processing aspects of poultry meat and other meat products.

The Poultry cluster contains three major components in which KCBS assistance was mainly focused:

- Egg production – egg, hatchery and pullet production
- Feed – animal feed production for poultry needs
- Broilers – broiler production/growth and slaughtering

In year one, KCBS directed its efforts to strengthening the legislation and regulations needed to make the poultry industry competitive and to combat unfair competition. A disease identification and prevention program was implemented through the MAFRD and the Veterinary Institute. KCBS assisted the Kosovo Veterinary Food Agency (KVA) in drafting the administrative regulation for Avian Influenza, Newcastle disease and Salmonella. All three diseases are placed under the responsibility of Kosovo government (legally treated diseases). Laboratory testing equipment was bought for the Veterinary Institute so that they now have the ability to test for the major diseases that could affect human and poultry

health. Training was provided in Sarajevo to three laboratory experts. The same experts will also go to US for three weeks of training under the support of World Learning. Regional inspectors and veterinarians were also trained on sample collection, transport and storage.

Commercial poultry producers signed an agreement concerning certification with KVFA and the regulatory system was put in place. Reports of health control of commercial egg layers are being filed with the minister. KVFA through its laboratory is conducting periodical testing of flock health and issues the certificate for permanent health. Quarantine procedures have also been enacted for day old chicks, pullets, spent hens, hatching eggs and eggs for consumption. KCBS helped create an epizootiological map of Kosovo for the MAFRD. At all times now the disease situation in Kosovo can be monitored. Training and testing was done on final poultry products such as fresh eggs and meat. The Veterinary Institute, Department of Animals Science of University of Prishtina and the Customs Control has the training and laboratory equipment to test the quality of all poultry products entering into or being produced in Kosovo. This testing should effectively control the quality of eggs and poultry meat coming into Kosovo and assure the consumer of a high quality and healthy products. Egg testing has shown the low quality of the eggs found on the market and groceries. KCBS assisted MAFRD in drafting the regulation regarding egg quality – egg grades and standards.

KCBS worked closely with SHPUK to strengthen the association. A four-year strategic action plan was developed for the needs of the association and KCBS assisted in the implementation of the planned activities.

KCBS has assisted in poultry-related privatization. KCBS assisted Koni-Soni in their winning proposal for privatizing the farms they had been using for pullet production. Koni-Soni now have opportunities for more extensive use of the purchased facilities.

Eggs. KCBS helped producers meet demand for eggs and poultry meat by cost effectively increasing production and providing better working conditions to commercial poultry producers. There are an estimated 500,000 commercial laying hens in Kosovo, producing approximately 450,000 eggs per day and this number fluctuates from 450,000 to 650,000 depending on the flock replacement.



The KCBS program introduced commercial producers to growing pullets for flock replacement. By the end of year one, all laying chickens were hatched from locally grown pullets, replacing all of the imported pullets.

Broilers. Currently, there is only one commercial broiler producer in Kosovo that slaughters chickens, selling 7,000 broiler chickens monthly. This commercial broiler operation and a small slaughterhouse were brought on line with KCBS assistance. The operation needed help in locating suppliers of feed, day old chickens, processing equipment, packaging materials and veterinary supplies. KCBS identified the least cost and most appropriate supplier for all of



these materials. The broiler operation has sold 50,000 chickens since it started and plans to increase production. At this time, there are basically three types of chicken meat on the market: whole Kosovo fresh birds, frozen whole birds, and leg quarters (imported from US at prices below the world market cost of production).

Feed production. The cost of feed represents over 70% of the total cost of production for eggs and poultry meat. If the feed is not of the highest quality (meeting the daily nutritional requirements of a particular breed of bird) egg and meat production will suffer to the financial detriment of the enterprise. KCBS will assist SHPUK to develop a feed products price list for the cluster to enable buyers to obtain products at the best possible price. A computer feed formulation program was given and installed to all the major poultry producing operations and they were given individual training on how to use the program. The Faculty of Agriculture and students received training in laboratory testing and least-cost feed formulations.



Three students became proficient in the use of computer software and have followed up with the poultry producers on implementing least-cost formulations. Laboratory testing was conducted on imported and domestic feeds to determine their nutrient content. The best nutrient content feeds are being sourced for optimal poultry production. Currently KCBS is assisting MAFRD in drafting the regulation regarding the testing and labeling of feed ingredients and finished animal feed.

3.0 FRUIT AND VEGETABLES CLUSTER

During the first year, KCBS has been responsible for linking Kosovo growers and fruit and vegetable shippers with several domestic and foreign food processors and marketers. Two significant contracts were negotiated for export shipments of over 210 tons of blueberries, 20 tons of mushrooms, and 3000 tons of green, red and yellow peppers. KCBS will build on these contracts throughout the life of the project.

The KCBS approach is to provide direct, hands on assistance to private companies and associations that are engaged in agribusinesses. Our assistance includes providing export market linkages, technical assistance for product development and improved manufacturing processes and the formulation of business plans and strategies.

The Fruit and Vegetable sector is facing several constraints in Kosovo. These must be addressed before the sector is to move ahead. Production obstacles and market information are but two of the areas that KCBS has addressed during year one.

To assess the profitability of local produce, KCBS initiated a market information system whereby weekly market prices of specific vegetables sold in Pristina, Peje, Prizren and Gijlani are monitored and distributed to farmers groups, associations and other projects in the region.

During the first year, KCBS determined that Kosovo's comparative advantage in agriculture lies in the sale of several niche products that, while small in current production figures, have the largest potential for future profits. These include blueberries, wild mushrooms, rosehips, juniper berries, and others. Several contracts were signed between buyers and collectors of wild mushrooms and blueberries. Since the season for these items extends through September, at the time of writing it was too early to tell what the final sales figures were; however, we estimate the amount sold in these two products alone will exceed €500,000.

Our consultants also assisted in finding export opportunities for existing Kosovar vegetables. In July, the project identified an Albanian processor, Alcred, willing to buy up to 3,000 tons of peppers, worth approximately €450,000. At time of writing, this contract was being fulfilled.

KCBS examined several other varieties during the first year that we later determined would be too expensive or impractical to produce in Kosovo. These included strawberries, sweet corn, and okra. We decided it would be better to halt assistance rather than to continue spending project funds supporting activities in these varieties.

New processing varieties of potatoes and tomatoes have been identified as a result of test plots carried out this season.



KCBS has organized client visits to regional producers and processors, which will continue throughout the remainder of the year. Introduction to Eurogap is in progress and will continue throughout the next two years. The introduction to Eurogap and the implementation of the steps involved is a three year program.

During year one KCBS targeted processors in identifying and moving ahead with production of value-added product to challenge imports. Agro Albi, Pestova, and Agroprodukt Syne Company were all targeted processors identified in the Year One Work plan. Of these, Agro Albi was not able to install new equipment due to financial constraints,

However, Pestova added a new potato processing line and Agroprodukt Syne Company installed fruit and vegetable drying tunnels and packaging equipment. We also identified



other food processing companies that have installed new equipment. These included Albi and Dona Laberian, both in juice products.

KCBS engaged two technical specialists in juice processing and food processing equipment for production of value-added fruit puree, frozen French fries and vegetable products. KCBS is currently preparing market reports for several value added products including flavored potato chips, frozen French fry potatoes and individually quick-frozen (IQF) blueberries.

Findings from these reports KCBS will determine what value added and processed foods we should focus on during the remainder of the project. To date we have concluded that frozen French fried potatoes and IQF frozen blueberries offer excellent opportunity for market development. We have identified sources of new and used processing equipment and fruit and vegetable quick-freezing tunnels.

A cost-benefit analysis for the production of juice concentrate was completed and indicated that the production of juice concentrates in Kosovo was not economically viable. However, the analysis did conclude that there was an opportunity for the production of fruit puree and this puree could be used in the production of fruit juices and other drinks. With this in mind the F&V cluster has advised client companies, including Albi Company and Dona Laberion, interested in producing fruit juice concentrates to consider instead processing fruit into purees.

HACCP training will start once vegetable processing facilities begin operating this season and implementation of HACCP auditing of facilities will be carried out during the project life.

KCBS has fostered positive working relationships between producers and processors through facilitation of contract growing agreements for apples and peppers. Growing contracts have been drawn up and will be fulfilled during August and September. KCBS also assisted purchasers of blueberries and mushrooms to find pickers and collectors of these items. At the time of writing this work plan final sales results were not available.



The response to advertising for pickers was disappointing even though pickers were largely needed in high unemployment areas. During the next blueberry season KCBS will correct this situation by implementing several ideas including:

- start recruitment for harvesters at least one month prior to time of harvest,
- use village heads to encourage people to harvest, and
- use the USAID/LGI (Local Government Initiative) project to assist in developing a program to recruit harvesters from their areas of operation.

To support the contracts mentioned above and to improve the relationships throughout the market chain, KCBS started training courses on postharvest handling and grading with blueberries and will continue during the fruit season with training in apple grading, packing and storage. With these improved storage and postharvest handling practices, growers and fruit handlers have extended storage life of fruit resulting in higher grower returns for quality fruit. KCBS has implemented packaging improvements in the fruit and vegetable sector with

the use of perforated plastic bags for exported peppers, appropriate shipping containers for blueberries and the use of corrugated packing cartons for apples.

KCBS engaged in several activities to increase linkages between Kosovar and regional fruit associations. The team and our client companies attended the Novi Sad trade fair in May 2005. Our participation resulted in increased contact with regional fruit & vegetable importers and food processors, introduction to new production technologies and food processing equipment. Cluster advisors visited the USAID/LAMP project and attended the Herzegovina Fruit and Vegetable Cluster meeting in August 2005. As a result of this meeting linkages were established with regional food processors, producers, and associations, and issues of common interest were discussed, including food safety.



It is important that relationships within individual links in the in the market chain be broadened and deepened and that fruit associations in Kosovo increase their ability to bargain collectively both on a national and regional level. KCBS found the Novi Sad trade fair and the USAID/LAMP project visits to be beneficial to developing linkages between local and regional fruit producers. However, after review of several fruit associations we found most to be lacking a common vision, and therefore determined it was premature to unify these associations in year one. We shall continue to

monitor the interest in forming a unified Kosovo-wide association in year two.

KCBS is supporting development of this sector within three minority areas: Dragash, Strepce and Blagaje. We have identified wild fruits (blueberries, rose hips, juniper berries) and mushrooms as a specialty product sector for development during the project. KCBS has identified collecting centers in Brezovica and Dragash minority areas, and is working with collecting agents who are operating these collection centers and purchasing wild fruits from harvesters. The Fruit and Vegetable cluster is also working closely with fruit collectors in Strepce Municipality, a Serbian minority area and the Bosniac minority areas near Dragash.

4.0 CONSTRUCTION MATERIALS CLUSTER

4.1 Wood Processing.

KCBS assisted in forming the Association of Wood Processors and developing a Strategic Plan with the Board, which should lead to sustainability of the Association. An Executive Director was appointed; she will, with KCBS assistance, manage a subcontract with a local business service provider charged with implementing many components of the strategic plan. KCBS awarded a grant for the creation of a website, due to be operational end October 2005. The Association contributed 19% of the funding required for this grant. Association dues grew steadily as manufacturers began to see the benefit of membership.

KCBS assisted AWPK in holding a successful Trade Show in Pristina in early April. KCBS supported further visits to trade shows by AWPK members in September to Slovenia (9 members) and to Germany (2 members). All events resulted in increased sales and linkages for further increases. In June, an STTA spent three weeks visiting secondary processors and advising on improvements in work organization, preventive maintenance and safety issues. On a second visit in September, the same STTA concentrated on improvements at the main primary processing [logs] plant in Kosovo where a new headmill had recently been installed. During the summer, four students from the Wood Faculty in Ferizaj (a disappointing number) were placed in companies as summer interns.



During the first year, we failed to make progress in defining quality standards for wood windows. There are no universal standards in use in Kosovo. KCBS obtained a set of appropriate European Norm (EN) standards for the Association, but the person charged with reviewing, translating and communicating them to the industry failed to perform. Until such standards are specifically demanded in supply contracts, the processors are content with business as usual, and making incremental improvements, usually at the demand of a particular client.

Regarding work with the forest industry, KCBS discussed this with the EAR and the MAFRD. There have been many studies already performed on the forest industry. Another assessment was not needed - action was. KCBS agreed that the Kosovo Forest Agency within the MAFRD, supported by the FAO's interest in the subject, should lead in the quantification and ultimate certification of the log supply sources. KCBS's interest was in ensuring there was a guaranteed log supply to any company setting up a small log processing facility.

4.2 Improved Quality Control

European Norm (EN) Standards for the targeted products – the essential components for structural construction, cement, aggregates and steel – were obtained, addressed for Kosovo specific conditions, translated, peer reviewed and passed to the Ministry of Trade and Industry. There they languished. The Kosovo Standardization Agency was late in being set up, and the general debate and confusion about developing standards, meant that no one in Government championed these essential standards, even though at the start of the year the Ministry deemed them to be urgently needed. However, at the very end of year one, MTI indicated they would be approving the standards developed by KCBS, and authorizing their general application. Equipment necessary to test materials for conformance with these

standards is woefully inadequate in Kosovo, and the investment needed is large. The second year work plan will focus on driving the adoption of these standards through the private sector, and obtaining the necessary testing equipment.

4.3 Improved Productive Capacity

KCBS shepherded the privatization of Silcapor, and subsequently supported its marketing plans. This included holding information meetings with architects and engineers to demonstrate the safety (previously doubted) of the blocks and the insulation value. Large investments are now required to make improvements in the production process; the plant is in poor condition. Silcapor is already heavily indebted through its purchase of the former SOE. Even so, the new owner did achieve to increase the production for approximately 50% compared with SOE.

At the end of Year One, we have concluded that it was not Government policies and regulations that inhibited entrepreneurship in the cluster. Rather, entrepreneurs are inhibited by the significantly greater investment needs compared to loans requested for agricultural businesses, and the severe critique by loan officers each application receives. Much of KCBS activity on this objective has been centered on assisting manufacturers to obtain bank loans. There were successes with quarry investments, asphalt plants and Silcapor. The Aragonit loan proposal for a reinforcement steel processing plant (a much needed plant for Kosovo) failed to meet with bank approval. Other options for this investment were initiated. It is essential that such a plant is operational in Kosovo next April.

KCBS revitalized the Road Contractors Association (RCAK). The same comments apply to this association as to the AWPK (an Executive Director; website development and increasing membership; a grant with association contributing 21%). The RCAK is the “wealthiest” of the associations KCBS has developed during the year – the nature of their business is large value, contract works. A workshop organized by KCBS between the RCAK and the Association of Municipalities, generated an awareness that road construction in Kosovo was poorly



specified, incompetently inspected and doomed to have a very short lifespan. It was a wake-up call for improved quality and the RCAK members will continue to self-monitor to play their part. However, the initiative must come from the investors, the Municipalities, in insisting on better quality. Quality of aggregates improved as investments in new equipment took place, and the cheap river-gravel operators were sidelined. It is foreseen by Ministry of Environment and Spatial planning that in the year 2006 there will be no company or individual digging in river as the penalties are to be very high. Unfortunately, the amount expected to be spent on road construction in Kosovo in 2005 [less than €12 million] was significantly down from expenditure in 2004 [€34 million]. The improvements in production capability of the industry will not be manifest in increased sales this year.

KCBS contacted several plastic [PE and PVC] pipe manufacturers with a view to forming an association through which issues such as specifications, joint testing and improved production processes might be addressed. There was little interest. This sector is ripe for entry by an international investor. KCBS initiated discussions with several concrete products manufacturers, in both the south and the north of Kosovo, and this grouping will receive priority attention next year.

4.4 New Marketing Initiatives

KCBS identified several opportunities not foreseen in the year one work plan, but which were consistent with the project's philosophy of pursuing activities that will lead to increased sales and employment. Most of these activities involved construction materials and are therefore discussed here.

4.4.1 Decorative stone industry.

KCBS identified the decorative stone industry as a large untapped source of economic growth and employment. Currently, four quarries in Kosovo are mined in Malishe and Kline municipalities using very primitive techniques. 80% of the product is sold to the domestic market at prices significantly lower than world prices. There are approximately 22 locations of existing and undeveloped quarries in Kosovo,

which with appropriate investment and technological improvements could provide employment for hundreds of workers in these areas. To develop this market, KCBS attended trade fairs in Istanbul and Verona in September 2005. Several large companies engaged in mining and processing expressed interest in investing in this area. We will continue to pursue this opportunity aggressively in year two.



4.4.2 Newcom Llamkos.

KCBS initiated discussions with the new owners of Newcom Llamkos, a steel manufacturing plant, as a potential supplier of waste containers (dumpsters) for the Kosovo and export markets. This was in direct response to a tender announcement by the Kosovo Trust Agency (KTA) for 1,000 No. 1.1 cubic meter waste containers. The annual demand for such containers approaches 5,000. Due to some difficulties related to the privatization process, Newcom Llamkos decided not to bid on the mentioned tender, but it does plan to complete a modern production line for such containers to meet future demand. [In addition KCBS has identified a second, smaller steel fabricator that is interested in producing waste containers, although they would be black steel i.e. not galvanized, construction only.]



4.4.3 Pista-Ekoplast.

The newly privatized Pista-Ekoplast in Rahovac recycles waste PVC, polyethylene, plastic, and rubber materials to manufacture construction and irrigation pipes and other products. KCBS consulted to the firm on ways to collect plastic waste (Ekoplast's raw material) within Kosovo, to replace imports. This is a long-term project requiring the input of the Ministry of Environment, EAR, municipal governments, and other entities, and therefore will not likely be pursued in year two.

5.0 IMPROVED BUSINESS OPERATING ENVIRONMENT

A mid-year course correction necessitated by a better understanding of the dysfunctions facing the business service provider (BSP) and association sectors led KCBS and USAID to conclude that many of the initial goals and objectives of the original Year One Work Plan for the Intermediate Result, IR.1.3.2 Improved Business Operating Environment, were overly ambitious or premature. In addition, the findings of the *Constraint Study* led KCBS to reassess the priorities in business service development. The Donors Roundtable, a KCBS initiative, identified several overlapping and complementary activities with other donor projects. Further, through greater coordination with other members of the roundtable, KCBS was able to leverage the activities of other NGOs, develop consistent and mutually supporting strategies and goals in association and service sector development, and better focus our own resources. Finally, the GBS team contributed extensively to modifying proposed legislation in order to protect the civil society against encroaching re-centralization from several directions.

5.1 BUSINESS CONSTRAINTS

The main achievements of Year One were:

- Completed Constraint Study that identified key barriers to economic growth and employment
- Replicated World Bank's Business Conditions Index (BCI) to focus policy efforts and promote foreign investment
- Sponsored a cross-border conference on the Kosovo-Macedonia Free Trade Agreement (FTA)
- Launched Private-Public Dialog engaging business, government, and donor organizations
- Designed pilot DCA bond guarantee for Raiffeisen Bank to provide long-term deposits to support long-term lending
- Promoted greater coordination among donor organizations
- Analyzed the perceived disruptive impact of VAT on markets within KCBS clusters

Private Public Dialog: In Year One, the Scenario Process was originally intended to assist only association boards and KCBS staff in developing more proactive, demand-driven organizations. As the year progressed, its activities expanded to become the catalyst for a more ambitious Private-Public Dialog. The Private-Public Dialog, which was envisioned as a



one-day event in the original plan, evolved into the foundation for both KCBS and EAR institutional development plans. The expanded Private-Public Dialog emerged with two overarching objectives. The first was to help decision and policy makers in both sectors to see beyond the institutional and structural limitations such as status and energy capacity limitations; and the second, more important goal, was to assist the private sector to become a recognized equal partner in defining the business environment.

KCBS created and managed a “Futures Conference” that engaged the business leaders, government officials, and donor agency representatives that identified six crucial areas that could be developed regardless of future events: transparency, tax rationalization, quality standards development, education, and infrastructure development. Task groups were formed for each. A Dialog Coordinator was engaged to manage the groups and a 100-day time limit for deliberation was imposed to prevent the task groups from becoming institutionalized and assure that the stakeholders to take ownership of the results and not the process.



Improving the Business Environment: In Year One KCBS' first deliverable to USAID was the Constraint Study, which was presented in March at USAID's offices. It identified five constraints whose resolution is within the purview and financial resources of KCBS. These were:

- ◆ lack of standards and standards setting capacity,
- ◆ inadequate access to finance,
- ◆ a disconnect between fiscal and development policies,
- ◆ lack of technical/business skills,
- ◆ weak non-governmental institutions, especially associations.

Quality standards development and nongovernmental institution development are discussed below in association management. Access to finance was already identified as an independent issue (see below). There was a lack of reliable information, economic and business, on which to base any discussion of tax impact on development. Data available from the Statistical Office of Kosovo (SOK) is inadequate. To begin to address the issue, KCBS commissioned a local firm to replicate the World Bank's Doing Business Index. The Index found that Kosovo's regulatory environment was actually more pro-business than most anticipated and will prove to be a valuable foreign investment promotional tool.



KCBS working through the Kosovo Development Center (KDC) and the Macedonian Center for International Cooperation (MCIC) sponsored a cross-border dialog on the Macedonian-Kosovo FTA by underwriting a one-day conference of farmers and farm representatives from both markets in Pristina. The conference concluded not with a list of demands that each would submit to their respective governments but, more positively, with a list of initiatives that private sector firms from both sides of the border could do together to assure mutually beneficial cross-border trade.

In an analysis of the Value-Added Tax (VAT), it was evident that VAT is not simple to administer when transparency in business practices does not exist. A number of exemptions and zero-rating have undermined the self-regulating structure of the VAT allowing evasion, underreporting, and misunderstanding of VAT obligations to become commonplace.

Improved Access to Finance: Early in Year One, limited access to finance (not just credit) was recognized as a major constraint to business. It is conventional wisdom that high interest rates price businesses out of the credit markets; rather, high interest rates reflect high risks due to dysfunctional judicial mechanisms, a lack of understanding as to how to

manage credit, loan officers and court officers untrained in working with moveable property as collateral, and mismatches between borrowing and bank assets. To address these issues KCBS worked with Raiffeisen to design a DCA guarantee for a long-term bond issue thereby taking the first steps towards a Kosovar capital market. KCBS also undertook a pilot project to help farmers borrow against contracts and cash flow. The benefits of both these initiatives will be communicated to the business community early in Year Two at a Finance Fair whose objective is to improve understanding between lenders and borrowers.

5.2 BUSINESS ASSOCIATIONS

Association development efforts in the first year can be broken down into three different initiatives:

1. Introducing local government and business leaders, association experts and KCBS staff to a different model for associations supported predominantly through market-driven services rather than member dues and donor assistance,
2. Introducing long-term planning needed for institutional development
3. Creating an environment that will foster the emergence of association management firms and, in turn, professional association managers.

To these ends, KCBS:

- Conducted numerous workshops on self-sustaining business models, fee-for-service activities, and strategic planning for associations and businesses
- Created a rapid response capability, in coordination with USAID's Economic and Development Initiative project, to counter legislation that could undermine the development of a viable civil society sector
- Counseled 17 associations to develop long-range (four-year) strategic planning
- Identified 11 with the greatest promise to become self-sufficient and targeted them for individual attention in three waves of 3, 4, and 4.
- Conducted workshops on association management and association management firms, including inviting the Association and Business Management Center (ABMC), a successful association management firm from Tirana to explain its business model and practices
- Assisted associations in drafting tenders for association management firms
- Advised government leaders in ministries and agencies involved with the issues important to the targeted associations on associations' more activist role.
- Accompanied association leaders to business meetings in Serbia and Montenegro
- Sponsored participation of Kosovo agribusiness associations in 2005 South East European Associations of Fruit and Vegetable Processors in Albania
- Identified other peer and partner organizations in Macedonia, Albania, Serbia, Montenegro, Bosnia, and Greece to expand local leaders' focus to regional association development.



Introducing a New Association Business Model: At the beginning of Year One, an initial assessment of the association sector in Kosovo found that not one association examined

was financially independent of donor and/or government assistance, nor had they plans or the capacity ever to become so. Associations were instructed that dues and government assistance were sufficient. A commonly held definition of “self-sufficiency” was maintaining a sustainable stream of donor assistance. However, this model made them a dependent of the government and subject to its priorities rather than an engine for government reform responsive to business priorities. Because of their overwhelming dependence on donor assistance, the associations did not know how to select and price services, determine the appropriate level for dues, or set their own priorities. At first, KCBS tried to introduce a business model dependent predominantly on fee-for-service revenue through broad based education programs, and coupling workshops attended by 17 associations with one-on-one consulting. Dues and grants would only account for a minority of revenue. However, it soon became obvious that resistance to actually charging members for services offered was too strong to counter directly. We opted instead to work at this indirectly through the strategic planning process .

Associations should become responsible for implementing activities essential to the economic viability of its constituents such as: quality control, standards development, worker training, and new technology adoption. This approach:

- assures that these activities are in the best interest of business,
- insulates them from government corruption, and
- provides an independent revenue source to support other association activities.



Introducing and encouraging a more activist role for associations will remain a prime focus for KCBS for the remainder of its existence.

Strategic Planning and Institution Building: Because associations were dependent on donor assistance, they usually planned no more than one year at a time. Consequently, these associations tended to react to donor and government priorities rather than proactively promote their own. The first step to true political and fiscal independence is to develop long-term plans with SMART (specific, measurable, achievable, relevant, and time-sensitive) goals. With these specific task and priorities established, associations can better evaluate which projects are most to its advantage and ignore those that are not. Workshops intended to introduce the planning process to a broad base of associations had mixed results.

After trying to work with associations as a sector in and of itself with similar problems and solutions, KCBS opted instead to work with the most promising based on initial attempts at business plans. We divided 11 associations into three waves of development. Each wave had set steps:

- ◆ creating a four-year strategic plan with specific and measurable goals coupled with a business plan that would lead to donor-independent financing by the fourth year,
- ◆ acceptance of the goals by the board,
- ◆ drafting the results as a management contract for an independent management firm, and
- ◆ training for the board and its selected management firm on how to manage from a plan with particular focus on the difference between *governing* (the board’s responsibility) and *managing* (the staff’s responsibility).

The concept of hiring an entire firm to undertake management tasks as opposed to hiring a single executive director proved too difficult a concept for boards to accept. As a result executing the management contracts took longer than expected. Board training will be conducted in Year Two. KCBS has added study tours to Washington, DC and Brussels for

association managers and key board members to the Year Two calendar to provide them with working models of associations.

As noted above, understanding how to make associations financially independent is an essential precondition to their being able to create transparent and credible alternatives to government in critical areas of quality control, best practice development, and consumer protection.

Developing Association Management Firms: After the first year goals of these association strategic plans were converted into tenders for management firms, KCBS conducted a number of workshops for consulting firms to bid on managing the plans - not the associations. Because functioning associations do not exist in Kosovo neither do experienced association managers. There are many with expertise in specific areas such as lobbying, trade show management, and accounting. However, none have managed a profitable association. Therefore, there is a need to develop association management capacity in Kosovo. To do so, KCBS chose to work with existing business service providers rather than hand-select executive directors for a number of reasons. First and most obviously, based on the strategic plans developed no association of the 11 had management responsibilities so time consuming as to justify a full-time director. Secondly, the plans created by the boards demanded a broader range of skills in meeting and conference management, marketing, quality standards development, public policy and advocacy, accounting, and member service and product development – a range of skills better provided by a multi-disciplinary team rather than a single individual. Finally, by using the SAF grants we shall develop association management as a distinct profession as opposed to a subpart of each individual cluster sector. This way KCBS will be promoting more competition for association management needs and thereby accelerate the adoption of best practices.

This novel approach is proving more difficult to introduce than expected. KCBS quickly discovered that joint ventures and partnerships were unknown in Kosovo, and none of the candidate firms provided multidisciplinary, multi-firm teams. Each wanted to hire and control all participants on the project thus negating the benefits of the multi-firm strategy KCBS was trying to encourage. KCBS will continue to work with the market to develop this capacity and business model in a way that encourages the highest level of competition.

5.3 BUSINESS SUPPORT SERVICES

The approach in Year One was to limit the influence of donor agencies in the business services market, where donor distortion has been even greater than in the association sector. Currently in Kosovo very few business services are purchased directly by the consumer of those services. Either donors identify the need themselves and create a program to pay for the delivery of the service to local businesses, or a local business service provider identifies the need and requests that a donor support his delivering it to local businesses. There is little direct supplier to consumer transactions. In our research we found that direct sales to local businesses accounted for less than 25 percent of most of the business service providers we interviewed. To develop a local business service provider market we must first break the client-donor-supplier triangle. KCBS did this by coordinating with donors through the roundtable and by encouraging associations, a major channel of business services, to outsource to local businesses and charge members for the service.

KCBS conducted a generalized assessment of business service provider market in Kosovo, and created an internal inventory of service providers. We identified organizations that could help improve the quality of business services e.g. SCAAK and the Project Management Institute [PMI]. Because of our work with SCAAK, and much assistance given through previous USAID programs, the association was selected by USAID's new program "Human Institutional Capacity Development" [HICD] as one of the first associations to receive HICD assistance starting in late 2005.

KCBS coordinated with GTZ's project to create business incubator capacity for business services, and introduced business partnering to expand capacity and efficiency. KCBS worked to improve accounting and auditing services and, in turn, their use by Kosovar businesses. KCBS engaged local business service providers in KCBS projects whenever possible and increased local capacities through the World Bank BCI project, the Private-Public Dialog white papers, and association management development.

Cross Cutting Themes: KCBS recognizes that there are opportunities on the program where USAID's cross-cutting themes may accelerate or strengthen achievement of the primary goals of the project. In the first year, KCBS has worked to incorporate women and minority businesses into many of our activities. We have actively recruited minority representatives to participate in the associations we are developing, trade shows we attended, and the Private-Public Dialog task groups; and we provided specific minority training in the grant application process. Efforts to reach out to women through associations remain a back-burner issue as we build the capacity of the association sector generally, but associations still remain the major conduit through which KCBS can engage minority and women-owned businesses in our clusters.

KCBS sponsored a new study undertaken by the Center for Protection of Women and Children [CPWC] to examine women's access to business and finance. The results were submitted at the end of the year and will be presented at the Finance Fair workshop sponsored by KCBS in November. KCBS became aware that our training on the farms was always directed at the owners and senior farm hands, whereas women perform much of the work. Women focused training on the farm will feature in our work for next year

In addition to increasing participation in cluster associations, we are working to organize training programs directly in minority areas through association proxies. For example, a Women's Business Association from North Mitrovica has more than 150 members and covers the territory of North Kosovo. Its main activity is related to job creation for unemployed women through different donation programs. Market demand for traditional food, generated the idea of creating a small women's cooperative to produce and distribute traditional Kosovo foods such as ajvar, pickled peppers and different fruit jams. Such production would add a significant value to the vegetables and fruits that some members of the association produce and sell on the green market. Its current plan did not offer promise for long-term self-sustainability. KCBS will provide contacts with SADA, a USAID cluster project in Serbia that has successfully developed such co-ops, and *Aid to Artisans*, a USAID-sponsored global initiative that has created several women-operated co-operatives around the world.

A key component remains assisting businesses to become more transparent. This is especially important in integrating minority and women-owned businesses where we have initiated direct training programs through associations such as SCAAK and service providers such as Piramida.

Technical assistance is planned for the members of a livestock association, Agro-Hit, in North Kosovo. Their grant application, for improvement of milk quality will be seriously considered as part of Kosovo-wide action for milk quality improvement. The "Lahor" dairy from Brezovica expressed interest to receive technical assistance in cheese production.

Two companies from minority region have already received support from the EAR BAS project through connections established by KCBS. The EAR Investment Programme to assist private sector development and job creation in Mitrovica and Zvecan was presented to the some of KCBS client companies from Mitrovica and Leposavic Municipality

GBS team member attended the World Women's Day Conference organized by a Bosnian and Hercegovinian Women's Economic Network (BHWEN) in Sarajevo in May. The conference focused on: gender equality, work and social politics, family violence, and Economic access for women in BiH. We found the BiH experiences closely related to the problems of Kosovo as they share the same deep roots in community traditions that affect the position of the woman inside the family and society. For example, one of the key

problems of the women in BiH was the difficulty of acquiring collateral for start up business loans as a very small number of females possess any kind of property. Despite such difficulties, there are a large number of females in BiH who run their own businesses in vegetables and fruits production, processing for jams, medical herbs, and milk processing

KCBS staff members attended the “Woman as a Mainstay of Reforms - Successful Women Fighting against Difficult Position of Women” conference hosted by BORAM Agency based in Sarajevo with the support of IFA (Institute for Foreign Cultural Relations in Stuttgart). Due to the multiethnic composition of our team, which included Olivera Milloshevic, Head of Business Women Association coming from North Mitrovica, we drew particular attention and received special thanks for our contribution to this conference. The conference is part of a regional initiative that brings together women groups from Bosnia, Serbia and Albania to discuss bettering the economic, political and social position of women in South Eastern Europe. KCBS was invited to participate in a follow up conference in Tirana in December to present its work on the dealing with gender-based economic barriers.

6.0 STRATEGIC ACTIVITIES FUND

In Year One, KCBS launched and began employing the Strategic Activities Fund (SAF). In Spring 2005, KCBS developed the SAF criteria, procedures, and policies for applying for and awarding funds. USAID approved the SAF manual in April 2005.

KCBS organized two conferences to present the Strategic Activities Fund to local organizations to inform them of SAF objectives, eligibility criteria, and Fund procedures. 150 people participated in an Albanian-language conference held in Pristina in May, and 29 people participated in a Serbian language conference held in North Mitrovica in June. KCBS also disseminated information about the Fund on the KCBS website.

Funds approved to date total €283,459 (\$368,150). Below is a description of funds approved broken down by types of awards and cluster in which the award was made.

Fixed Price Subcontracts: To date SAF has signed 21 subcontracts, with an obligation value totaling €258,162 (\$336,107).

10 Subcontracts have been signed with requests from General Business Support €125,995 (\$163,782), seven with requests from Livestock Cluster €118,827 (\$154,298), two with requests from F&V Cluster €4,710 (\$6,365), and two from Construction Material Cluster €8,630 (\$11,662).

Subcontracts have shown to be a very useful tool for supporting activities that need fast start-up, and support for short-term activities. Subcontracting has shown to be practical because most of the preparatory work involves drafting an SOW, which is usually done by KCBS staff. The SOW provides detailed background information for the activity that needs to be implemented, describes the tasks that are anticipated, and sets clear and precise deliverables that should be produced by subcontractors. Local organizations do not need to spend time in preparing the proposal and can respond quickly to KCBS's request. This type of award has also proved successful in terms of delivering the results that are expected from the activity. Subcontractors are informed before they sign the subcontract about terms and obligations under the Fixed Price Subcontract, and that they will be reimbursed only upon successful submission and approval from KCBS of deliverables. As a result, KCBS has noted higher engagement from organizations for successful implementation of subcontracts.

Simplified Grant Agreements: Two grants have been awarded to date, both in the construction material cluster, with an obligation value totaling €25,297 (\$32,043).

There is little yet to report about Simplified Grants. KCBS has signed only two Simplified Grant Agreements that are in process of implementation, and which were awarded only in August. We are in the process of evaluating seven applications from associations which have already sent, or will soon send, applications for supporting implementation of their strategic plans.

SAF has received 42 concept papers to date, most of which are concept papers from individual companies or organizations that have more the nature of humanitarian assistance, instead of development, training or technology transfer activities or similar. Most of them were rejected on such grounds.

The process of awarding grants to associations in their implementation of strategic plans has proved to be more difficult and required more time than anticipated. This was largely because the way this process is designed it first requires that associations request proposals from business service providers, and only after they have been received and evaluated [with KCBS assistance] does the Association prepare its application.

The Budget Application Form from the SAF manual proved to be very difficult for organizations/associations to understand. The SAF team revised the version of this budget form to make it simpler and more easily understandable for applicants. The revised version was presented to USAID/Kosovo and was approved.

Some organizations decided to send full applications instead of going through the shorter initial route of writing a concept paper. We noticed that they had problems filling the application properly, delaying the processing of applications. To reduce this problem KCBS organized two workshops on application writing for several organizations. This proved very effective; as a result we decided to organize this type of workshop each time we issue an RFA.

A Summary of the use of SAF funds is tabled below:

	Approved	Pending (approx.)	Total
BY CLUSTER			
Livestock	\$ 154,298	\$ 87,000	\$ 241,298
Fruits & Vegetables	\$ 6,365		\$ 6,365
Construction Materials	\$ 43,705		\$ 43,705
General Business Support	\$ 163,781	\$ 350,000	\$ 513,781
Total	\$ 368,150	\$ 437,000	\$ 805,150
BY TYPE			
Grants	\$ 32,043	\$ 368,000	\$ 400,043
Fixed Price Subcontracts	\$ 336,107	\$ 44,000	\$ 380,107
Procurement of Goods		\$ 25,000	\$ 25,000
Total	\$ 368,150	\$ 437,000	\$ 805,150

7.0 COMMUNICATIONS

Our strategy for Year One rested on four principles: soliciting stakeholder input, developing core messages, disseminating messages to target audiences through the most influential communication channels, and inviting feedback.

Two Stakeholder meetings were held at which the goals of the KCBS program were outlined to a wide cross-section of the government, donor and association community. The meeting at which the agriculture clusters were discussed provided much input from the audience, which was fed back into the work plans for the second half of the year. Integration with other donor programs was improved progressively throughout the year, and much potential overlap between the programs was avoided. Feedback from these meetings has also influenced the planning of work to achieve the program objectives. There is no doubt that the movers and shakers in Kosovo know about the KCBS program and generally are enthusiastic supporters of the goals and the means being adopted to achieve them. The messages may not have been presented regularly in conformance with the structured targeting identified in the Communications Plan produced in March, but the program has not suffered by this omission.

There has been much coverage of the KCBS program in the media, and the quarterly reports record these. The broadcasting media have also covered our work independently of KCBS initiatives, particularly the RTK's Saturday morning farming program which has followed our activities at the farms. However, a weakness of this year has been the limited recording of these releases on the KCBS website. Only two success stories were written for publication by USAID/Washington; a significant improvement in this area is planned for next year.

26 reports have been written by our Short Term Technical Advisors following assignments lasting from 1-4 weeks. These will be posted on the KCBS website – summaries in all three languages, and the full text in English – once the texts have been approved by USAID for publication.

KCBS incorporated USAID guidance on terminology, media relations, and event planning into guidelines and briefed staff on the importance of compliance. Two "Dealing with the Media" sessions were held during the year. Those authorized to speak with the media were restricted to staff who demonstrated the necessary communications skills.

KCBS subcontracted for the creation of a video entitled "Doing Business in Kosovo" for use by the Ministry of Trade and Industry. It was first shown at a trade and investment gathering in Bari, Italy

8.0 PERFORMANCE MANAGEMENT

8.1. DESCRIPTION OF THE SYSTEM

Introduction: The main objectives of the KCBS program are to increase sales and employment for long-term growth of enterprises in targeted clusters, by promoting increased competitiveness within the clusters, and by developing an improved business operating environment.

The performance-based management system (PBMS) is central to the project's structure and serves as an invaluable management tool. It monitors progress against project targets, facilitates reporting of results attributable only to KCBS, provides data for USAID reporting requirements, and flags implementation problems as they occur. It allows management to monitor progress during the year, and by identifying problems as they occur - in real time - the PBMS makes it possible to make programmatic adjustments mid-course.

PBMS is designed to be an integral part of the project management structure. The data generated by the cluster teams assists project management in its decision making. In addition to measuring progress and providing results data for quarterly and annual reports to USAID, the PBMS feeds important information to decision makers. The PBMS also plays an important part in determining whether or not to continue assistance to client firms. Based on reported results and cost/benefit analysis, the PBMS specialist may suggest discontinuing assistance to firms that consume a lot of resources but do not show an adequate return on the investment.

Overall, the data collected by the PBMS shows what works well and what does not, identifies successful clients and interventions, and allows the team to compare projected versus actual results on a monthly, quarterly, and annual basis.

Selection of the clients: The selection process of the clients started in the beginning of the project. Some clients were already clients of previous USAID project - KBS - so it was just a continuation of the relationship under new project. The first clients were companies from the livestock cluster with whom we worked previously. Other clients were recruited after visits and interviews with the representatives of these companies.

After the identification of a new client, the first step was to sign the letter of confidentiality with the client. Before signing this letter, respective specialist explained KCBS policy on confidentiality for sensitive data. Then the KCBS cluster specialist developed an action plan with the client. The action plan is a standard template that indicates the name of the client, type of business and the product. It also identifies the principle bottlenecks, or obstacles to expanding the business, as well as proposed strategy for overcoming those bottlenecks. In addition, it lays out the commitment of both the client and the KCBS, the results expected and timeframe for completing this action plan. The cluster specialist submits the action plan to KCBS cluster advisor - team leader - to make sure that:

- The problems it identifies are the obstacles actually hindering the enterprise's expansion;
- The proposed strategy will address those bottleneck, and
- The proposed activities follow the strategy prescribed in action plan.

Based on this review of action plan, KCBS cluster advisor may accept it, recommend changes, or reject the proposed intervention or even the client.

Establishing a baseline: Once the action plan was approved, KCBS began providing assistance to the client company. Following this process we have identified 60 companies in

the first year. However, from this total number of companies, during the year some of them became non active for different reasons that will be explained further in the report.

The cluster specialists worked with their clients to establish baseline data from the previous twelve months of operations relative to sales, production, employment, investment and financing and each month collect data for monitoring purposes.

Database design: In the early stage of the project we started to develop a specialized database to track and report results. KCBS database records information about the client firm, its product or service, and general information such as contact person, legal status and business address.

The information first entered into database was considered preliminary. PBMS specialist conducts site visits and interviews representatives from the client enterprises in order to verify the results that have been reported. After verification of the information and the necessary modification of the information made, if any, then the results are considered to be final.

The database is designed in two parts: data entry and data reporting. The data entry part of the database consists of Baseline entry data, Monthly entry, Quarterly entry and Action plan. The data reporting part also consists of the reports generated from the entry part of the database.

Data verification: As mentioned above, the PBMS specialist has a mandate to audit the results reported from the cluster teams. This includes verifying the accuracy and consistency of the data reported by the cluster teams, the intervention strategy of KCBS, and the causal relationship between the results and the KCBS intervention. Verifying the accuracy and consistency of the data reported by KCBS specialists required site visits and meeting with client enterprises. The PBMS specialist has visited every client during the first year of the project. Site visits have been arranged in coordination with the cluster team specialists.

In most cases KCBS didn't have access to the client's financial records, and therefore auditing is not carried out in the traditional sense. Rather, PBMS specialist verified results by interviewing a representative of enterprise, generally the owner or the manager. In these interviews, PBMS specialist has asked a series of questions, such as:

- What kind of support have you received from KCBS?
- What are the problems or obstacles hindering the growth of you employees?
- Which problems have you tried to resolve with the help of the KCBS?
- How could the support you are receiving be improved?
- How many employees do you have?

The client provided these data in writing. We have developed a special form for the Monthly enterprise report, that includes data for production, sales, employment, financing and investment, and that requires signature by the client. The primary purpose of the client interview is to compare the reported results with the audited or verified results.

Causality and Attribution: In addition to verifying the accuracy and consistency of the results reported by the cluster teams, the PBMS specialist also must determine whether the results were caused by the KCBS intervention and thus attributable to the project. During the interviews with clients, the PBMS specialist documents the KCBS intervention strategy, the specific activities undertaken to assist the client, and the effect on specific indicators, in order to determine causality.

8.2 STATUS OF ESTABLISHED INDICATORS

The baseline figures for the indicators for 2004 comprise data from 48 companies. Four companies became non-active for different reasons. Three companies were rejected as client companies because they were not cooperative. A further company in the livestock cluster is no longer our client because the company failed to obtain financing to start the business. Additional baselines were set for 8 new companies that became our clients in the last quarter. However, the figures reported do not address the additional clients.

For a like-to-like comparison between 2004 and 2005, the data from the original 48 companies only is presented. These companies are taken as representing “the Targeted Clusters” as defined in the Indicator descriptions for sales, jobs and labor productivity. In future years, KCBS will consider the multiplier effect of improvements at the client companies as they increase sales and jobs [and hence productivity] across all the clusters’ activity.

The main issue, not only while establishing the baseline data but also during the course of the project, remains data quality. Most of our clients do not have proper record-keeping and accounting system in place, nor do they keep any data that could be used for reporting purposes. Another constraint during the collection of data is that clients hesitate to give the data, even though KCBS has assured them by mutually signing a confidentiality agreement that the data will stay confidential to USAID and KCBS.

The baseline data was compiled for the Kosovo fiscal calendar year, “CY” [January through December], whereas USAID requires performance measurements for the US financial year “FY” [October through September]. Comments addressing this difference will be made as appropriate.

The baseline data for 2004 was not assembled till the first quarter of 2005. Some of the necessary figures simply were not available e.g. the full time equivalents of the part-time employees used by our client companies in 2004.

Most of these deficiencies will be rectified and addressed for reporting at FY 2006, ending September 30, 2006. All measures to capture the correct data at the client companies are now under KCBS control, and are being monitored monthly. Hopefully, data provided by Government Departments will be made available more speedily next year as the departments become better organized.

Notwithstanding these comments, KCBS believes it has performed well against the target indicators, and even where the data is suspect, there is sufficient evidence to show that the targets have been met, if not exactly by how much.

IR.1.3 (1) Accelerated Private Sector Growth

Indicator: Company Profit Taxes Collected, Kosovo-wide

Baseline set for CY2004: €34,100,000

Target for FY2005: €38,200,000

Taxes reported are made up of:

- Presumptive tax
- Profit tax from small individual businesses (sole proprietors)
- Profit tax from big individual businesses (sole proprietors)
- Profit tax from small corporations
- Profit tax from big corporations

Actual total for FY2005: €39,228,497

Tax Administration have consolidated system for data collection and reporting. Data is received electronically. Tax Administration have information technology department that records the data and prepares reports. Tax Administration have reported on this indicator upon written request made from COP to Director of Tax Administration. Even so, data for FY2005 is based on a provisional number for the third calendar quarter ending 30 September.

Considering that companies usually do not present to the tax authorities the real figures for their sales or/and production, it is questionable whether this indicator (or what it represents) shows real increase or decrease in sales and production.

IR.1.3 (2) Accelerated Private Sector Growth

Indicator: Exports as a Percentage of Imports – Kosovo Wide
ANNUAL REPORT INDICATOR

Baseline data for CY2003: 3.70%

Target for FY2005: 6.00%.

In FY2005, total exports were €65.6 million, while imports were €1,173.0 million.

Actual cumulative % for FY2005: 5.59%

The data for this indicator was collected from Macroeconomic unit in Ministry of Finance. This unit was very cooperative toward KCBS project and the data received from them is reliable. However, it requires a lot of time to receive data from them, because the data processing takes at least one month within the unit and an extra month to be distributed to other users. Hence our report is based on a provisional number for the third calendar quarter ending 30 September.

There was an unusually large drop in exports in the third calendar quarter; the indicator percentage had stood at 6.33% at the end of June 2005.

Note: These figures are not the same with the data presented by BPK in their monthly bulletins, where this indicator is presented in smaller percentage.

IR.1.3.1 (1) Increased Competitiveness of Targeted Clusters

Indicator: Sales within Targeted Clusters

Baseline data for CY2004:	€35,755,626
Target Increase for FY2005	5.00%.

Actual sales for FY2005	€42,653,040
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Actual % increase in sales:	19.3%
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IR.1.3.1 (2) Increased Competitiveness of Targeted Clusters

Indicator: Jobs Created within Targeted Clusters

ANNUAL REPORT INDICATOR

Baseline data for FY2003:	Taken as Zero
Target Increase for FY2005	200 jobs

Actual job increase in FY 2005:	295
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Baseline data was set for the Annual Report at the end of FY 2003 data and was taken at level zero. The same zero level was assumed for FY2004, and subsequent changes were to be measured against this zero level. The total increase of direct employees in FY 2005 from the baseline is 295, including full time [270] and part time employees [25]. The increase represents a 27% job growth within our baseline companies. It is noted that when compiling the baselines, few of our clients had records of the part time employees they had used in 2004. In 2005, KCBS has ensured these records have been kept on a monthly basis.

Much of KCBS's work is aimed at improving the competitiveness of the clusters; the result of that should be higher productivity, doing the same work with fewer employees. As markets are developed, then more can be produced and employment will rise again, but in the short term one of the results of our work can be a dip in direct employment.

For this reason, account should be taken of the multiplier effect of the jobs created outside of the direct employment at our clients. This is a matter that must be addressed in the next year. Increased production leads to jobs at associated firms within the cluster – testing agencies, veterinary services, transport, packaging – and it is in these firms that job creation should be manifest.

However, in this report, no account has been taken of the multiplier effect. Rather than introduce the effect in a piecemeal fashion in this report, KCBS will include a comprehensive approach to the multiplier effect in next year's reporting.

This report compares 2005 results with 2004 results at the same baseline clients. It is pointed out that these results do not include new enterprises with which KCBS started working during the year, and where job creation is already evident e.g. at fruit associations. A brief assessment of the impact of this additional job creation is given in section 8.4 below.

IR.1.3.1 (3) Increased Competitiveness of Targeted Clusters

Indicator: Labor Productivity

Baseline data for FY2004:	Taken as Zero
Target Improvement for FY2005	5%
In FY2004, production value per FTE:	€23,114
In FY2005, production value per FTE:	€20,488
Improvement in Productivity	-11%

One distorting factor is the high employment at Co. Silcapor where all the new full-time employees were added to the jobs created, but the production did not rise significantly until midway through the last quarter of FY2005. By the end of the year, the production at Silcapor in the last quarter could change this indicator dramatically. [eliminating Silcapor data from the above calculation, would result in a reduction from -11% to -4% change in productivity].

IR.1.3.1. (4) Improved Productive Capacity of Private Enterprise

Indicator: Value of Capital Investment within Targeted Clusters

Baseline data for FY2004:	Taken as Zero
Target Increase in Investment for FY2005	€1,500,000
Actual Increase in Investment in FY2005	€2,341,908

Our baseline in PBMS for 2004 was the actual capital investments at the companies with which we were working. This was taken as level zero. Value of capital investment in 2004 for targeted enterprises was in the amount of €5,422,067. In FY2005, amount of capital investment in targeted enterprises was €7,763,975. So, the total increase in FY2005 is €2,341,908.

IR.1.3.1 (5) Strengthened Capacity to Access Credit

Indicator: Value of Financing within Targeted Clusters

Baseline data for FY2004:	Taken as Zero
Target Increase in Financing for FY2005	€3,000,000
Actual Increase in Financing in FY 2005:	€2,081,375

Our baseline in PBMS for 2004 was the actual financing at the companies with which we were working. This was taken as level zero. Value of financing in 2004 for targeted enterprises was in the amount of €1,316,500. In FY2005, amount of financing in targeted enterprises was €3,397.875. So, the total increase in FY2005 is €2,081,375.

IR.1.3.2 (1) Improved Business Operating Environment**Indicator: Number of Companies Registered – Kosovo Wide.****ANNUAL REPORT INDICATOR**

Baseline data for CY2003: 30,966

Target for FY2005: 42,000

Actual Companies registered in FY2005: 48,497

There are differences from the data received from Agency for Business Registry and the Macroeconomic unit in the Ministry of Finance. We used the data from Agency and then consolidated these with the data received from Macroeconomic unit, since they are also using the same source of information.

IR.1.3.2 (2) Business Associations Responsive to Client Needs**Indicator: Number of Associations with Strategic Plans**

Baseline data for FY2004: Zero

Target No. Associations with approved strategic plans in FY2005 6

Actual No. Associations with approved strategic plans in FY2005: 7

KCBS has given much effort in working with associations and assisting them to identify their priorities and how to get there. This resulted in seven (7) strategic plans approved by respective boards of the associations.

IR.1.3.2 (3) Business Associations Responsive to Client Needs**Indicator: % of Operating Revenues Self-Generated by the Associations**

Baseline data for FY2004: Zero

Target for FY2005 4 self-generating > 50% of revenues

Actual No. Associations self-generating > 50% of operating revenues in FY2005: 4

IR.1.3.2 (4) Business Associations Responsive To Client Needs**Indicator: Number of Associations employing Permanent Staff**

Baseline data for FY2004: Zero

Target for FY2005 3 associations.

Actual No. Associations employing permanent staff in FY2005: 7

The target for FY2005 was set that at least three associations will have employed non-volunteer staff. By the end of FY2005, the number of associations was seven (7) employing in total 22 permanent employees.

8.3 ADDITIONAL INDICATORS AGREED IN APRIL 2005

IR. 1.3.1.2. Improved Quality Control

Indicator: Number and type of standards approved by target associations

KCBS has worked to encourage legislation that allows associations to be recognized as accredited standard setting bodies. We have also worked with the newly created Kosovo Standardization Agency to allow for independent (extra-governmental) testing labs, a precondition to associations driven standards. The status of the indicator for FY2005 is zero.

There are many improvements in the field of Quality Control which are needed in Kosovo. Several organizations are addressing the issue, most notably the EU/EAR which are driving a path to compliance with EN standards. KCBS can only make recommendations and encourage the establishment of a standards infrastructure and culture. Nonetheless, as part of our objective of achieving Improved Quality Control, KCBS will monitor improvements in the coming years in such areas as:

- Number of associations with Quality Standards Committees
- Number of accredited independent testing labs
- Number of associations with published products standards
- Number of associations with published process standards (best practices)
- Number of certified members by associations

For Year Two, however, we shall develop a list of products within our clusters for which standards are most urgently needed. Our efforts will be directed to getting this limited number of standards written, translated and delivered to the Kosovo Standardization Agency.

IR.1.3.2 Improved Business Operating Environment

Indicator: Business Environment Index

The project on Business Conditions Index (BCI) was performed during Year One. BCI in Kosovo in 2005 helps to better understand business regulatory framework. It provides critical information to all agents in Kosovo. The overall purpose of compiling BCI in Kosovo is to evaluate the competitive position of the Kosovo business environment relative to current and future trading partners. It is also intended that findings from this project will contribute to, and substantially improve, the dialogue between the private sector and the government in Kosovo and help them improve the business environment in Kosovo.

There are seven components that are part of BCI, and for them a total of 27 different measures. KCBS has selected three measures, and one associated measure, on which Kosovo scores least satisfactorily and on which KCBS, through its program activities, has the opportunity to make some positive impact. These measures, together with the targets for the next three years, are set out below. The methodology used for measuring these four indicators will be similar to that used for the BCI in 2005 and will be based on research and analysis of laws and regulations, with inputs and verifications from local government officials, lawyers, business consultants, and other professionals.

Note that the target for a Financial Year will be the index value calculated for the previous calendar year, e.g the target for FY2006 is the index value for CY 2005.

1.3.2. a Cost to Create Collateral (% of income per capita)

Baseline:	BCI Index for 2004	22
Target FY 2006:	BCI Index for 2005	16
Target FY 2007:	BCI Index for 2006	12
Target FY 2008:	BCI Index for 2007	8

1.3.2.b Private Bureau Coverage (borrowers per 1000 capita)

Baseline:	BCI Index for 2004	46.8
Target FY 2006:	BCI Index for 2005	100
Target FY 2007:	BCI Index for 2006	200
Target FY 2008:	BCI Index for 2007	400

1.3.2.c Cost of Enforcing Contracts (cost as % of debt)

Baseline:	BCI Index for 2004	29
Target FY 2006:	BCI Index for 2005	26
Target FY 2007:	BCI Index for 2006	23
Target FY 2008:	BCI Index for 2007	20

1.3.2.d Number of Unresolved Claims

Baseline:	BCI Index for 2004	TBD
Target FY 2006:	BCI Index for 2005	TBD
Target FY 2007:	BCI Index for 2006	TBD
Target FY 2008:	BCI Index for 2007	TBD

IR.1.3.2.1 Strengthened Business Consulting Services

Indicator: Number of businesses using business consulting services

KCBS program is now assisting a total of 56 client companies in three clusters. All these companies use at least one consulting service. We have not made any survey among businesses that use consulting services outside the area of targeted clusters. However, a survey performed by KCBS on business consulting companies themselves, found that 20% of the revenues are actually from the services rendered to the local companies; 80% of their revenues are from donors. Efforts will be made during the next year to increase the share of revenues rendered to the local companies from services from 20% to 30%; and to develop a methodology for verifying this percentage.

IR.1.3.2.2 Improved Capacity for Policy Dialogue

Indicator: Number of Private-Public Dialogue Task Group Recommendations Implemented

The initial strategy of KCBS was to collect the data related to ongoing public private dialogue. The original indicators identified were:

- Number of statistical strategies established by associations; and
- Number of cluster specific indices produced.

However, KCBS found that there was no dialogue at all, and no statistical data collected. It was determined that these indicators would not be relevant at this stage of the development of the private-public policy dialog.

However, KCBS's involvement in the Public-Private Dialog, which was initiated to address the business sector's own passivity in shaping and investing in its environment, built on the enthusiasm engendered through the Lake Ohrid Conference in June. By mid-August, with staff recruited and hired and additional participation committed, the Dialog was reengaged through six task groups, one for each of the issues identified in Ohrid as critical to the future of Kosovo business development: tax implementation, transparency, infrastructure development, financial sector stability, education, and quality standards development and enforcement.

In early December 2005, these Task Groups will report to the public at large on their recommendations. Following this conference, the Kosovo Chamber of Commerce and the Association of Kosovo Businesses have jointly committed to maintaining the Task Groups to ensure the recommendations are advocated with the Government and the private sector and acted upon.

KCBS will track the implementation of these Task Group recommendations.

8.4. ASSESSMENT OF ADDITIONAL JOBS CREATED

During FY2005 KCBS has increased the number of clients with whom it is working, particularly in the fruit and vegetables cluster. Since data about these clients were not included in the baseline information, any improvement does not show in the jobs, sales, investment and other indicator reports in Section 8.2. They will be added in the pool for monitoring statistics in FY2006. However, we estimate a further 45 new jobs have been created as indicated in the table below:

In Livestock cluster	14
In Fruit and Vegetables cluster	5
In Construction Materials cluster	0
At Business Associations	22
At Business Service Providers	4

ANNEXES

Annex 1	Financial Data
Annex 2.	Performance Data
Annex 3.	Short Term Technical Advisors [STTA] Summary of Assignments
Annex 4.	Targeted Results 2005
Annex 5.	Hierarchy of Objectives

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ANNEX 2

PERFORMANCE DATA

Performance Monitoring Report

SO 1.3 Accelerated Private Sector Growth

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2004 Target	2004 Actual	2005 Target	2005 Actual	2006 Target	2006 Actual	2007 Target	2007 Actual	2008 Target	2008 Actual
1.3	Accelerated Private Sector Growth													
Indicators														
1	Value of company profit taxes collected	Euros	2003	28,412,404	34,100,000	42,840,000	38,200,000	39,228,497	40,500,000		42,100,000		43,800,000	
2 (AR)	Exports as a percentage of imports	Percent	2003	3.70%	4.00%	4.90%	6%	5.59%	8%		10%		12%	
1.3.1	Increased Competitiveness of Targeted Clusters													
Indicators														
1	Total sales among targeted enterprises	Euro	2003	0	0	35,755,626	5%	19%	10%		17.50%		25%	
2 (AR)	Jobs created within targeted clusters	Number	2003	0	0	0	200	295	600		1100		1700	
3	Labor productivity among targeted enterprises	Number	2005	0	0	0	5%	-11%	10%		15%		20%	
1.3.1.1	Improved Productive Capacity of Private Enterprises													
Indicators														
1	Increased capital investment among targeted enterprises	Number	2004	0	0	0	1,500,000	2,341,908	3,000,000		4,000,000		5,000,000	
1.3.1.2	Improved Quality Control													
Indicators														
1	Number and type of standards approved by target associations	Number	2004	0	0	0	0	0	TBD		TBD		TBD	
1.3.1.3	Strengthened Capacity to Access Credit													
Indicators														
1	Increased financing among targeted enterprises	Euro	2003	0	0	0	3,000,000	2,081,375	6,000,000		10,000,000		16,000,000	

Performance Monitoring Report

SO 1.3

Accelerated Private Sector Growth

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2004 Target	2004 Actual	2005 Target	2005 Actual	2006 Target	2006 Actual	2007 Target	2007 Actual	2008 Target	2008 Actual
1.3.2	Improved Business Operating Environment													
Indicators														
1 (AR)	Number of companies registered - two quarters	Number	2003	30,966	37,000	40,703	42,000	48,497	47,000		51,000		54,000	
2	Business Environment Index (reduction of business constrains)												TBD	
	a. Cost to create collateral - % of income per capita	Percent	2004	22.0%			N/A	N/A	16.0%		12.0%		8.0%	
	b. Private bureau coverage - number of borrowers per 1000 capita	Number	2004	46.8			N/A	N/A	100.0		200.0		400.0	
	c. Cost of enforcing contracts - cost as a % of debt.	Percent	2004	29.0%			N/A	N/A	26.0%		23.0%		20.0%	
	d. Number of unresolved claims	Number	2004	N/A			N/A	N/A	TBD		TBD		TBD	
1.3.2.1	Strengthened Business Consulting Services													
Indicators														
1	Number of businesses using business consulting services	Number	2004	0	0	0	N/A	N/A	TBD		TBD		TBD	
1.3.2.2	Improved Capacity for Policy Dialog													
Indicators														
1	Number of Private-Public Task Group irecommendations implemented	2004	0	0	0	0	N/A	N/A	TBD		TBD		TBD	
1.3.2.3	Business Associations Responsive to Client Needs													
Indicators														
1	Number of associations with approved strategic plans	Number	2004	0	0	0	6	7	10		14		20	
2	Percent of non-donorrevenues generated by the associations	Percent	2003	0	0	0	4>50%	4>50%	7>70%		10>80%		14>80%	
3	Number of associations employing non-volunteer staff	Number	2004	0	0	0	3	7	5		8		14	

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ANNEX 3

SHORT TERM TECHNICAL ADVISORS

SUMMARY OF ASSIGNMENTS

SUBJECTS OF SHORT TERM TECHNICAL ADVISORS' REPORTS

Poultry Sector Study - January 2005

The purpose of the assignment was to provide technical assistance to the Kosovo poultry industry primarily through direct interaction with members of the Kosovo Association of Poultry Producers and Feed Manufacturers (SHPUK). The consultant addressed problems in feed milling, feed grain production, poultry producers, hatcheries, and poultry composting.

Assistance to Kosovo Association of Milk Producers - February 2005

The purpose of the assignment was to work with the newly formed Kosovo Association of Milk Producers (KAMP) to develop a work plan for the year of 2005. In so doing, the consultant produced: a report on the constraints facing the Kosovo Dairy Industry; an Action Plan for KAMP; an outline as to how to develop a Dairy Genetics Herd Book; recommendations for cooperation between the producers and the processors associations; and recommendations and overview of the activities being conducted by KCBS in the dairy sector.

Association Development – February/March 2005

The purpose of the assignment was to assist associations and other business related nonprofit organizations (NPOs) to develop strategic plans to serve the organizations' missions and to adopt SMART objective setting that to improve management and help the associations move toward self-sufficiency.

Constraint Study - April 2005

The purpose of the study was to identify and focus on business constraints: that could be addressed within the life of the project; that affected businesses in the three KCBS targeted clusters; and that threatened KCBS' goals of increasing sales and employment in these clusters. USAID anticipated that this study would serve as the foundation for a public-private dialogue, similar to the Bulldozer project in Bosnia, through which both business and government representatives agreed upon and immediately implemented near-term strategies to eliminate or dull significant constraints to business formation and expansion. To that end, the study first identified and reviewed all of the many significant constraints to investment and growth which exist in those areas, and then selected as "targets" five constraints which are both very serious and can be affected by actions that KCBS can initiate immediately. These five were:

1. A lack of clear and protected product standards
2. Inadequate access to financing
3. Tax and trade policies inconsistent with development objectives
4. Common lack of experience and practical know-how
5. Weak business and professional associations

Wood Processing in Kosovo - May 2005

The purpose of the assignment was to provide technical assistance to the secondary manufacturing and sawmilling businesses. The consultant reviewed current business operations, and worked with wood processors to implement improved manufacturing practices. The consultant conducted workshops on preventive maintenance and improving health and safety conditions at work. He provided guidance to the newly formed Association of Wood Processors of Kosovo [AWPK].

Dairy Cow Reproductive Health and Management - May 2005

The purpose of the assignment was to obtain an overview of the Kosovo dairy industry and to make recommendations for improving the genetic potential of the dairy herd. The assignment entailed many farm visits, particularly to Commercial [>10 Cow] Dairy Farms and interviews with Veterinarians, University Professors, Ministry Personnel, Association of Milk Producers personnel and Bank Officials. Three Seminars were presented. Seven areas for further training and assistance were identified. Scopes of Work were developed for each of these areas outlining for continuing education, information brochure development and research to help the dairymen directly and through training of Veterinarians and AI Technicians to help transfer much of this management information to the farmers.

Improving Nutritional Assistance to KAMP - May 2005

The purpose of the assignment was to develop the most cost effective dairy rations that are beneficial for the Kosovo breed of cows and Kosovo dairy management systems. The best-cost rations were developed and will be marketed by KAMP through local feed millers. By working with specific dairies, KAMP has demonstrated that improved feeding programs will elicit more milk along with a profound economic impact within a week of implementation of the new rations. The assignment estimated the economic impact, which is on-going, on specific dairies in Kosovo for which KAMP had provided nutritional assistance.

Promoting Feed Crop Production to Support - May 2005

The purpose of the assignment was to work with the trade associations (KODAA and KDC) to continue promotion of the proven technologies for increased maize and soybean production and to develop plans for identifying best management practices for other important feed crops such as forages and legumes. In addition, the consultant reviewed with the Peja Agricultural Institute and the Ministry of Agriculture, Forestry, and Rural Development results of 2004 programs and plans for 2005 activity to support improved feed crop production. Discussions revealed that many progressive farmers have adopted improved maize and wheat varieties and efficient crop protection products. However, efforts to educate these same farmers and agri-input suppliers as well as the Peja Agricultural Institute, which is responsible for developing fertilizer recommendations, to the benefits of using high analysis phosphorus fertilizers on feed crops, must continue. Efforts must also continue to identify best management practices for other feed crops (alternative legumes and oilseeds) and forages, which could be economically grown and utilized by the livestock industry.

Forages and Dairy Cattle - June 2005

The purpose of the assignment was to improve forage production for the members of the Kosovo Association of Milk Producers (KAMP). The consultant visited farms in different areas, analyzed forage production conditions, did quality testing sampling, prepared recommendations for improving forages for dairy producers. At the end of the assignment a presentation was given to KAMP on improved forage production techniques.

Processing Equipment for Fruit and Vegetables - July 2005

The purpose of the assignment was to assist a previously identified host, Devolli, to create a complete implementation plan for the procurement of a fruit juice concentrate line; to consult on the creation of value added products (juice recipes); and to assist in forging positive relations with growers and the processing company so that Devolli could source local inputs instead of importing the components of their entire product line.

Business Conditions in Kosovo - July 2005

The purpose of the assignment was to replicate the World Bank's methodology for Kosovo to cut through the obfuscation of opinion and speculation about the Kosovar business environment, to provide entrepreneurs with a rational evaluation of current conditions and to provide the Provisional Institutions of Self-Government (PISG) with specific targets for improvement.

The World Bank's Business Conditions Index (BCI) is designed to serve a number of valuable functions and guide the decisions of both domestic and foreign private business leaders, as well as assist public sector policymakers both home and abroad. From an internal perspective an analysis of the findings of the Business Conditions Index provides both an assessment of the ease with which resources can move in and out of a market and a measure of the "business friendliness" of the public policy environment. The uniformity of the methodology in developing the BCI provides local and international decision-makers with ready means of evaluating the relative strengths and weaknesses of a business environment; it also identifies the priorities for policymakers wishing to increase the competitiveness of the domestic market vis-à-vis its international competitors for business investment.

Global Development Alliance Assessment and Roadmap - July 2005

KCBS engages in several activities to reach its goals of increasing sales and employment. Among these are providing sales enhancement and business consulting services to local enterprises in targeted clusters, as well as developing a vibrant and self-sustaining cadre of business associations. This assignment was designed to enhance the project's delivery of these services by drawing on the specialist's expertise in considering the feasibility of creating and implementing Global Development Alliances, which might leverage existing project funds to assist in the creation of more jobs and sales in project-assisted areas.

Kosovo at the Crossroads - August 2005

The purpose of the assignment was to plan and orchestrate the Public-Private Dialog Conference held in Lake Ohrid June 20 to 22, 2005, entitled Kosovo at the Crossroads. The conference underscored Kosovo's current place in several decision paths, and engaged 57 representatives of the public, private, and nonprofit sectors, including KCBS business associations and donor agencies. Through this open forum the attendees identified solutions to the constraints to business formation and expansion targeted by KCBS's Constraint Study and created mechanisms to implement them. The Dialog focused on four possible scenarios of Kosovo in 2010. Policy makers and business planners looked beyond the limitations of existing conditions and structures and worked back from the perspective of alternative futures. This approach was especially attractive in the present Kosovar environment as the problems currently facing local businesses, foreign investors, and policymakers are too many, too overwhelming, and too steeped in emotional and personal opinion to allow objective discussions based on the present state.

Association Development - August 2005

The purpose of the assignment was to assist fledgling associations and other business-related nonprofit organizations (NPOs) to achieve self-sustainability by educating board members to tie strategic plans to specific action plans that serve the organizations' mission, assign and manage limited resources, and introduce SMART goal setting practices. It was a continuation of the assignment carried out in February 2005. The consultant served as a mentor to KCBS cluster team leaders, functioning as association executive directors on best practices in transparent association management, board relations, and advocacy. This was accomplished through meetings with staff and volunteer leaders of specific associations,

training workshops for associations and business services providers, and one-on-one counseling of association staff selected by KCBS.

Building Alliances Between KAMP and Serbian farmers - August 2005

The purpose of the assignment was to build a communication linkage between KAMP and the Serbian farming groups. KCBS had identified Serbian farming groups that could be assisted by the program. KCBS provided assistance from a consultant who had had experience in working with these groups so that appropriate training and grants could be developed to assist them.

Analysis of VAT on the Dairy Industry - August 2005

The purpose of the assignment was to conduct a case study, focusing on the dairy sector, of the influence of a proposed VAT exemption on the competitiveness of local producers and government revenues. This case study was developed in such a manner that it can be replicated for other sectors. The report determines how VAT affects the agricultural sector by discovering how the VAT is actually being applied by businesses and compares that with the correct application of VAT; and creates a case study that demonstrates how such a case is built to validate, or refute, claims made by businesses, thereby eradicating the need to rely on anecdotal evidence to prove these claims.

Feed and Egg Quality Control - September 2005

The purpose of this assignment was to show feed millers and poultry producers how to formulate poultry feed using ingredients, while still maintaining the nutritional integrity of the feed according to the needs of the consuming chicken.

Kosovo's Meat Market Potential - September 2005

The purpose of this assignment was to help Kosovo meat processors [poultry, sheep and lamb] develop a profitable industry by improving the functioning of their meat processing lines to produce the highest quality products for the least cost.

Improving Good Manufacturing Practices (GMP) within the Kosovo Dairy Industry - September 2005

The purpose of the assignment was assist the Kosovo dairy processing industry in improving Good Manufacturing Practices (GMP) and increased profitability through the manufacture of new products (such as mozzarella and ricotta) which have high local demand.

Dairy Processors' Association Development - September 2005

The purpose of the assignment was to identify the resources and technologies needed for modernizing the dairy processing sector in Kosovo and to transfer this information to individual dairy processors through a Kosovo Dairy Processors Association. Recommendations focused on the need to implement an integrated quality management system, a milk quality payment scheme, and formal training courses in clean milk production.

Artificial Insemination Study – September 2005

The purpose of the assignment was to provide education to Kosovo Milk Producer Association (KAMP) commercial dairy farmers, veterinarians & AI technicians in the latest methods and technology in the field of AI. The farmer and AI specialist must be able to recognize estrus and pregnancy in order to maximize the potential benefit from high-yield cow breeds. Recommendations were made specifically for estrus and pregnancy detection because of the growing number of high yielding imported cows in confinement and poor nutrition.

Contract Farming for Kosovo – September 2005

The purpose of the assignment was to assist producer groups in creating growing agreements with processors, retailers, and wholesalers. Farmers groups currently engage in ad hoc forward purchase contracts with processors, retailers, and wholesalers. The specialist brought together fruit associations, vegetable associations, and soft fruit and wild fruit collection association groups to assist in formalizing their growing arrangements. Banks may serve as intermediaries in these transactions, KCBS may also serve as an intermediary given USAID consent.

Equipment Systems and Technology Support for the Kosovo Food Processing Industry – September 2005

The purpose of the assignment was to assist three targeted processing companies in fully evaluating all aspects of equipment line expansion and, by so doing, to accelerate their rollout of new production lines. The rationale behind this activity was to quicken the pace of development in the processing sector, to reintegrate processing and input production, and to do so in a way that meets market demands and replaces imports.

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ANNEX 4

TARGETED RESULTS 2005

TARGETED RESULT - DAIRY	OUTCOME
Formation and functioning of the Kosovo Association of Milk Producers	The KAMP was formed in January. It developed a four-year strategic plan. A program was initiated for imparting the specialist knowledge provided to STTAs through KAMP across the whole Kosovo farming community.
Artificial insemination program inseminating cows from 5 model farm groups employing 12 people.	Forms, service providers, types of semen, importers have all been identified. A program is being developed by a STTA following an assignment in Sept. 2005. The start of implementation will be the second quarter of Year Two.
A "model" business plan developed by KAMP for commercial dairy operations	Raiffeisen and ProCredit are lending to KAMP members for the purchase of new dairy animals based on the model business plan developed by KCBS. More favorable lending terms were negotiated with both banks for this purpose.
KAMP submit to KSA and MAFRD standards for raw milk and final dairy products	The standards were developed for the raw milk and final dairy products and given to KSA and MAFRD.
Raw milk and final dairy products testing system implemented	Testing was implemented at the farm, milk collection center and dairy processing plant level. At the governmental level, licensing of processors is in place and testing for compliance is being practiced.
The quality of raw milk being sold to the processors for use as fluid pasteurized milk is improved leading to a tripling of production.	Dairy processors' records indicate a 55% increase in production of Grade A milk. However, KCBS doubts the validity of the reported numbers by the processors, which KCBS believes are grossly understated.

TARGETED RESULT - ANIMAL FEED	OUTCOME
Strengthen AKA and KODAA by providing two additional services to their members	AKA and KODAA implemented soil testing and hybrid seed testing programs for KCBS.
Yield results from test plots of corn and soybean disseminated to 200 farmers	Yield results from test plots of corn, soybean, alfalfa and sunflower were disseminated
An improved, and more cost effective, use of premix and feedgrain concentrate by Kosovo Dairy Farmers	A computer feed formulation program was given and installed at all the major poultry producing operations. Numerous feed rations mixes were developed for dairy farmers maximizing the nutritional value of cattle feed available in different regions of Kosovo at least cost.
A “model” business plan developed for commercial feed grain farm	A model business plan was developed and used by MAFRD and KCBS for the analysis of future cropping decisions by the farmers.
Two new feed grain products produced – example: Dehydrated Alfalfa and Full Fat Soybean meal	Market analysis and business plan was developed for Dehydrated Alfalfa. The processing of full fat soybean will be done in the first quarter of Year Two at the oil factory in Ferizaj.

TARGETED RESULT - MEAT	OUTCOME
SHPUK initiate new service for broiler operations	KCBS worked with SHPUK to establish a successful broiler producing and slaughtering facility. Fresh Kosovo produced chicken became available for the first time in local supermarkets.
Broiler (fresh chicken meat) operation employing 50 people in the production, processing and marketing of new chicken products.	Agri-Commerce was set up and is functioning, directly employing 16 people in the production and processing. They will be increasing production next year.
A "model" business plan developed for a broiler operation.	A business plan was developed but has not been submitted to the banks for financing. The potential investors are waiting for the privatization process of the SOE's to get further along. KCBS will assist potential investors in the first and second quarters of Year Two.
Implement promotional campaign for Kosovo fresh chicken conducted in major market centers.	This will begin in the first quarter of Year Two. Food safety standards have to be assured before the campaign will be initiated.
Assess market demand for Kosovo lamb meat	This was completed by Mr. Grusel and resulted in the resurrection of the industry being encouraged by all international donors.

TARGETED RESULT - EGGS	OUTCOME
A new breeder flock operation and hatchery established that employs 10 people	A training group is being sent to the US in the first quarter of next year to meet with Hyline concerning setting up the breeder operation in Kosovo. This action was delayed because it must be set up on privatized SOE property.
SHUPK submit quality control standards for testing and selling domestically produced and imported eggs to MAFRD for approval	KCBS worked with KVFA and SHPUK in drafting the administrative regulation for major poultry diseases. KCBS assisted the MAFRD in drafting the regulation regarding egg quality – egg grades and standards.
SHPUK to develop a feed products price list for the cluster	KCBS assisted SHPUK in developing a feed products price list so buyers obtain products at the best possible price. In the last year, feed prices have been dramatically reduced due to high crop production in Vojvodina and Serbia; but also a big impact was the change in the tax structure on imported feeds.
Conduct poultry training seminars on nutrition/production and disease prevention management	A disease identification and prevention program was implemented through the MAFRD. Seminars were held in Kosovo and training was provided in Sarajevo to three laboratory experts. The same experts will go to US early in 2006 for on-site training.
Market share of locally produced eggs increased by 20%	Market share of Kosovo commercially produced eggs increased from 60% to 79% of overall consumption, an increase of 31%.
A “model” business plan developed for layers production.	A business plan has been developed but has not been submitted to the banks for financing. The potential investors are waiting for the privatization process of the SOEs. KCBS will be assisting the potential investors in the first and second quarters of Year Two.
Regulations and policies affecting the poultry industry submitted to regulatory agency	Accomplished with Dr. Gagic's work. Regulations on testing of feed grains and labeling must be done next year.
Implemented promotional campaign that results in 25% consumer recognition of Kosovo fresh eggs logo	To be started the first quarter of Year Two.

TARGETED RESULT - FRUIT AND VEGETABLES	OUTCOME
At least 4 new Kosovo-produced varieties introduced to meet the demand of processors and compete successfully with imports.	Outcome of KCBS initiated test plots has resulted in 4 new varieties of both processing tomatoes and potatoes being recommended. Tomatoes: Hypeel 45, Pavia, Alparac and Perfectpeel Potatoes: Sinora, Fontana, Marlin and Agria
At least 3 new Kosovo-processed products developed and marketed that add value to locally-produced or imported raw materials.	During the first year several new processed products have been developed that add value to locally produced products or imported raw materials; these include locally produced frozen French fries and potato chips using locally produced potatoes and improved fruit juices using imported juice concentrate
Improved quality of harvested and processed fruits and vegetables, meeting HACCP/ISO/BIO standards	Quality improvement of harvested fruits and vegetables is currently being implemented through both postharvest and EuroGAP training. Training is also taking place in processing facilities to conform to HACCP standards. This training is ongoing and these standards will be met in the life of the project
A single Kosovo Fruitgrowers Association established with a developed strategic plan for sustainable representation of all growers	Though it is important that a single KOSOVO Fruitgrowers association be established, the F&V cluster has determined, after review of several Fruit Associations, it is premature to unify these associations at this time. We will continue work with the aim of unifying Kosovo Fruit Associations
New processing equipment for local produce installed in at least one major processing company thereby enabling import substitution.	Frozen french fry potato line was set up at one processing plant; technical assistance was provided to make the equipment operational and adaptable for other product lines. Simple cooling apparatus was installed at an association of fruit gatherers to prolong shelf life of blueberries.

TARGETED RESULT - CONSTRUCTION MATERIALS	
Association of Wood Processors in Kosovo established on a sustainable basis	The AWPK was formed in January. It developed a four-year strategic plan, and was awarded a grant to assist in implementing that plan whose actions are directed at the long term sustainability of the Association.
Demand for an association of private forest owners assessed and recommendation made.	After discussions with the FAO/MAFRD , KCBS agreed that at this stage of the industry's development, an association of private forest owners was not a priority. Other issues of more importance were certification of forests, lumber grades and small log processing.
Standards for components used in producing concrete – cement, aggregates and reinforcing steel – submitted to KSA for approval.	These were all completed by June 30, and submitted to the KSA/MoTI for approval. A problem has arisen over copyright, and the standards can not be distributed yet.
Procedures developed for testing materials to ensure standards are enforced	Draft procedures are prepared, in Albanian, based on EN standards. However, decisions on what laboratory, where this will be located, under whose jurisdiction, were all delayed owing to KSA/MoTI delays.
Action Plan developed for acquiring necessary testing equipment/facilities to ensure standards are enforced	See comments above. The equipment needs have been identified. The question of who will pay for the equipment, its installation, the training of lab technicians, and their and the lab's certification remains to be answered.
Investment facilitated in additional productive capacity for rebar, thermal blocks and quarried aggregates resulting in 235 new jobs.	A total of 227 new jobs were created in thermal block and quarried aggregate production. Funding for the investment in rebar manufacture could not be obtained.

TARGETED RESULT - BUSINESS OPERATING ENVIRONMENT	OUTCOME
Administrative and policy constraints to business growth identified, quantified, and publicized.	KCBS' <i>Constraint Study</i> identified five barriers to business that could be reduced primarily through independent business actions without donor support or government action: A lack of product standards, Inadequate access to financing, Tax policies inconsistent with development objectives, Common lack of experience and practical know-how, Weak business and professional associations.
Consensus on immediate priority policy reforms reached and action plan endorsed by business and government leaders.	The findings from the <i>Constraint Study</i> were validated by the Private-Public Dialog in June when it focused on six similar areas. Task groups were formed and starting in September met biweekly to arrive at a consensus of private sector actions in 100 days.
Leading business associations improve operational efficiency, cost recovery, member services, outreach, marketing, and regional cooperation.	Conducted numerous workshops for boards, staff, and potential leaders on association design, management and governance, product development, and financing. Worked with several BSPs to develop association management business lines.
Forum established for promoting business-government dialogue	Created <i>Kosovo at the Crossroads</i> , a forum that presented private, public, and donor sector leaders with alternative futures. From this the private sector is emerging as an equal partner to the government and taking ownership of its own environment by creating extra-governmental solutions and institutions.
At least four existing Associations have self-sustaining business models in place	Self-sustaining strategic plans were developed for seven associations. Five prepared grant requests.
With KCBS support, American Chamber of Commerce attracts at least 2 foreign companies to invest in Kosovo.	KCBS, with USAID concurrence, decided not to work with the American Chamber of Kosovo in foreign investment developmen during this first year.
Business advisors trained in identifying market opportunities and acting as market brokers.	Through SAF grants, KCBS began educating business providers to work directly with clients instead of with and through donor projects like KCBS. Participated in several B2Bs both locally and regionally. Helped build bridges between AKB and regional sister associations, MBA and ABA (Montenegro and Albanian Business Alliances).

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ANNEX 5

HIERARCHY OF OBJECTIVES

KOSOVO CLUSTER AND BUSINESS SUPPORT PROGRAM

HIERARCHY OF OBJECTIVES

